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FROM : Walter F. Ekard
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HIGHLIGHTS OF THE GOVERNOR'S FY 2011-12 STATE BUDGET MAY REVISION AND POTENTIAL COUNTY IMPACTS

On May 16, Governor Jerry Brown presented a revised state budget that is aimed at resolving an estimated $9.6 billion budget deficit. Proposals in the May Revision to address the budget gap include state expenditure reductions, funding shifts and a renewed push to temporarily extend a series of tax increases set to expire in June.

In February, the Administration estimated the budget deficit at $26.6 billion. As a result of a number of cuts adopted in March combined with increased state revenue estimates of $6.6 billion, the Governor now projects a budget gap of $9.6 billion. The Governor's May Revision states that $10.8 billion in solutions must be adopted in order to balance the budget and provide a $1.2 billion reserve.

In the May Revision, the Governor continues to advocate for a realignment of government that would shift administration of certain government services from the state to the local level.

Like the Governor's January budget proposal, the May Revision relies on voter approval to extend the current Vehicle License Fee (VLF), sales tax and personal income tax rates in order to successfully balance the state budget. However, due the Legislature missing the deadline to place a measure on the ballot earlier this year, the May Revision now assumes a vote by the Legislature to extend these rates prior to ratification of a ballot measure by the voters. No scheduled date for a vote on such a ballot measure has been officially proposed. Extension of the VLF is required in order to preserve over $22 million in current funding for public safety in San Diego County.

A large part of the expenditure reductions in the Governor's January budget proposal consisted of various cuts to the Medi-Cal program and decreases in state funding for

CalWORKs. Many of those cuts have already been made. The May Revision proposes additional state funding reductions to health and human service programs. Furthermore, the May Revision maintains the Governor's proposal to eliminate redevelopment agencies throughout California. The May Revision also includes a reduction in the number of state employees, the elimination of the State Department of Mental Health and the merging of the Healthy Families children into the Medi-Cal Program, as well as the elimination of dozens of state boards and commissions.

Governor Brown has not defined a budget alternative or "Plan B" if the Legislature does not vote to extend—or the voters do not ratify—the extension. There are some broad budget areas referenced in the May Revision that would likely be considered under an "all cuts" budget scenario such as public safety, health and human services, and education.

The attached document includes highlights of the Governor's revised FY 2011-12 State Budget May Revision and potential impacts to the County of San Diego.

Respectfully,

WALTER F. EKARD
Chief Administrative Officer

Attachment

cc: ACAO, CSG, FGGG, HHSA, LUEG, PSG, CNL, CLK

GOVERNOR'S MAY REVISION FISCAL YEAR 2011-12 STATE BUDGET
POTENTIAL IMPACTS ON THE COUNTY OF SAN DIEGO

MISCELLANEOUS BUDGET

State Budget Deficit *(Governor's May Revision Budget Summary, Page 4)*
- The May Revision projects a budget gap of $9.6 billion, down from $26.6 billion projected by the Governor's Administration in February.
- The reduction in the deficit is a result of cuts adopted by the Legislature in March, higher revenues and updated spending projections.
- To balance the budget and provide a $1.2 billion reserve, the May Revision states that $10.8 billion in funding reductions must be adopted.

Realignment *(Governor's May Revision Budget Summary, Pages 103-107)*
- The May Revision continues to advance the Governor's vision of restructuring the state-local relationship through realignment; however, the Governor has modified his proposal as outlined in his January Proposed Budget by removing a few programs originally considered for realignment.
- The May Revision proposes that AB 3632 – Residential and Mental Health Services should no longer be realigned to counties and should instead be realigned to school districts. **(See Health and Human Services section of this document)**
- Fire Protection has been removed from realignment.
- Funds administered by the Commission on Peace Officer Standards and Training (POST) and those administered by the Corrections Standards Authority are removed from the realignment proposal and returned to state general fund support.
- Funds for public safety mandates are removed from the proposal and returned to state general fund support.

Tax Package Election *(Governor's May Revision Budget Summary, Pages 37-40)*
- As was outlined in the January Proposed Budget, the May Revision calls for an extension of a series of taxes and the Vehicle License Fee (VLF) rate that are set to expire in June.
- The extension of the taxes would last until an election is conducted where California voters would have the opportunity to vote whether to continue the taxes for an additional five years. If the measures fail, the extended taxes will expire.
- Unlike the January Proposed Budget that called for a special election in June 2011, a date for an election extending the tax package has not been formally proposed by the Governor in the May Revision. Fall 2011 was suggested as a possible time period for an election by the Governor at a recent press conference; however, the Senate President Pro Tempore suggested a 2012 election.

State's Cash Flow *(California State Treasurer's May Revision Statement)*
- California's ability to borrow $10 billion to meet the state's cash-flow needs remains unclear—according to State Treasurer Bill Lockyer— because full implementation of the Governor's plan remains contingent on voter approval of taxes.
- The Treasurer stated his office will not be able to complete a cash-flow borrowing transaction unless the final adopted budget includes real, inescapable, quickly-implemented spending cuts that would be triggered if voters reject the taxes.

Potential for "All Cuts" Budget *(Governor's May Revision Budget Summary, Pages 12-14)*
- The May Revision mentions potential areas of reductions that would be necessary to balance the state budget should additional revenue not be available through improved economic conditions or the failure to enact the tax measures.

- Areas to be impacted by an "all cuts" budget specifically referenced in the May Revision include further cuts to higher and K-12 education, public safety, health and human services, state parks, water quality programs, food and agricultural protection and veteran's services.
- According to the Legislative Analyst's Office's review of the May Revision, the Legislature has many options to address the budget shortfall beyond the Governor's tax proposals such as consideration of other revenue proposals, additional program reductions, selected fund transfers, and internal borrowing.

Reducing Waste and Redundancies in Government *(Governor's May Revision Budget Summary, Page 8)*
- The May Revision proposes to eliminate 43 state boards, commissions, and task forces.
- The May Revision proposes the elimination of the Departments of Mental Health and Alcohol and Drug Programs and the reduction of state personnel by at least 25 percent.

COMMUNITY SERVICES

Redevelopment *(Governor's May Revision Budget Summary, Page 98; Governor's January Budget Summary, Pages 28 & 168-172)*
- The May Revision continues the Governor's proposal to phase out redevelopment agencies (RDAs) beginning in FY 2011-12. RDAs would be directed to suspend the creation of new projects and successor agencies would assume existing debts and contracts to be retired according existing payment schedules.
- The May Revision continues the Governor's proposal for a new funding mechanism for local redevelopment and a shift in property taxes to other local entities. The proposal calls for the following:
    - Statutory elimination of RDAs that would protect obligations for debt service and existing contracts and would divert $1.7 billion to the state's general fund in FY 2011-12 for Medi-Cal and trial courts. One-time funding would be provided equal to pass-through payments that otherwise would be received.
    - There would be an estimated $210 million left over for distribution to counties, cities, and special districts, according to their proportionate share of current property tax. Existing RDAs would have to be disestablished by July 1, 2011.
    - In subsequent budget years, the tax increment property tax that remains after payments on debt service and existing contracts would go to the counties, cities, non-enterprise special districts and schools. It is estimated that there would be a $50 million exception in the amount currently going to enterprise special districts which are fee-supported; this funding is proposed to go to counties.
    - The current balances in redevelopment agencies housing set-aside funds are proposed to be shifted to local housing authorities, to be allocated towards low and moderate income housing.
    - The May Revision continues the proposal for the passage of a constitutional amendment to provide for 55-percent voter approval for local, limited tax increases and bonding against local revenues for economic development projects similar to those currently funded through redevelopment.

        <u>County Impact</u>
        - Preliminary estimates for FY 2011-12 are as follows:
            - County general fund–estimated one-time additional revenue of approximately $8 million.
            - County general fund–Poway agreement – Pass through payments for the acquisition, construction, maintenance and operational costs of regional criminal justice facilities are anticipated to be included in the one-time payments described above.
            - County Redevelopment Agency – The redevelopment agency would be dissolved and its obligations would need to be assumed by another County fund. Depending on enabling legislation, tax increment revenue may potentially be received only to repay debt or existing contractual obligations, with no funding for costs to administer or monitor these obligations.
                - Upper San Diego River Improvement Project Area–Loss of approximately $1 million in tax increment revenue, based on existing debt and contractual payment of $600,000. Estimated potential annual impact to County departments, if costs to administer debt are not reimbursed in the future is approximately $120,000.
                - Gillespie Field Project Area–Loss of approximately $1.6 million in tax increment revenue, based on an existing debt payment of $1.1 million. Estimated potential annual impact to County departments, if costs to administer debt are not reimbursed in the future, is approximately $110,000.

- Low-Income Housing Program–Loss of approximately $850,000 in tax increment revenue set aside for low-income housing in the two project areas.
- Library fund – Estimated one-time additional revenue of approximately $270,000.
- Impact in subsequent years as existing redevelopment agencies' debt and contracts are paid off is unknown.

Special Election *(LAO Overview of the May Revision, Page 8; Governor's January Budget Summary, Pages 3, 6 & 27)*

- The May Revision maintains that two key elements of the Governor's January budget proposal— the extension of specified income and sales taxes and VLF, and the shift of some state programs to local entities—be approved by voters. The Administration has not indicated a timetable for this election. **(See Miscellaneous Budget section of this document)**
- The May Revision does not identify a funding source to reimburse counties for election costs.

County Impact

- The cost of a conducting a special election is estimated to be $5 million to $6 million.

Suspension of Election-Related Mandates (*Continued from Governor's Proposed Budget; Governor's January Budget Summary, Pages 164-165)*

- The May Revision maintains the Governor's proposal to suspend most state mandates not related to public safety or property taxes, presumably including election-related mandates. Election-related SB 90 claims are for voter registration, absentee ballots, and permanent absentee voters.

County Impact

- Estimated $1.5 to $1.8 million in lost revenue per year.

Libraries *(Governor's May Revision Budget Detail, Section 6120, K-12 Education; Governor's January Budget Summary, Page 146)*

- While the Governor's Proposed Budget sought to eliminate state funding for three major library programs (the California Library Services Act, the Public Library Foundation, and the California Library Literacy Services program), the Governor's May Revision preserved $15.2 million in funding for these programs.

County Impact

- A reduction of approximately 50 percent in state funding for County of San Diego Library Services; this is consistent with the budget levels in the County's FY 2011-13 Chief Administrative Officer's Proposed Operational Plan.
- $272,625 revenue loss in FY 2011-12 due to reduction in Public Library Foundation funding. Loss of this revenue would impact County library services available to clients, including the purchase of new books and materials.

FINANCE AND GENERAL GOVERNMENT

State Mandates *(Governor's May Revision Budget Summary, Page 95)*

- In March 2011, the Legislature acted on the Governor's January budget proposal to suspend most state mandates not related to law enforcement or property taxes and defer pre-2004 mandate obligations. The suspension and deferral are both in pending legislation (SB 69). While the Governor's January proposal calculated for a reduction of $227.8 million in FY 2011-12 as a result of suspending most mandates, the May Revision estimates the amount at $228.3 million.

County Impact

- The County is subject to several of the election-related mandates that are being proposed for suspension. **(See Community Services section of this document)**
- The suspension of Open Meetings Act/Brown Act Reform mandates would result in a loss of more than $75,000 in reimbursable costs, based on the most recent claims filed by the County.

- Pre-2004 mandate obligations are deferred for a one-time reduction of $94 million in the FY 2011-12 state budget.

County Impact

- The state currently owes the County more than $34 million in pre-2004 mandate payments. This proposal defers the repayment of this obligation for one year. According to Proposition 1A, this obligation must be paid by FY 2020-21.

Property Tax Assessment *(Governor's May Revision Budget Summary, Page 40)*

- The May Revision notes that it is expected that property values will increase by about 1 percent in FY 2012-13, and suggests that as the pace of property assessment work begins to pick up, the state should consider restoration of its participation in funding property assessments to ensure maximum revenues. The May Revision does not allocate any funding for this suggestion, but its inclusion creates a potential for future funding for the Property Tax Administration Program.

  County Impact

  - This results in no current year impact but opens the door to potential future funding. Until FY 2004-05 when it was discontinued, the County received about $5.4 million annually from the state's Property Tax Administration Program, which was designed to help local governments maintain up to date assessments in their regions.

Reform Enterprise Zone Tax Benefits *(Governor's May Revision Budget Summary, Page 32)*

- The May Revision alters the plan in the Governor's January Proposed Budget to eliminate Enterprise Zones (EZs), and now suggests reforming EZs. The May Revision calls for a reform of EZ credits to limit their availability to firms that actually increase their level of employment. Under the reformed system, taxpayers would be eligible for a $5,000 tax credit for each incremental full time employee that they hire. In the new system no new vouchers would be granted for tax years prior to 2011 and EZ hiring credits would be limited to a five-year carry-forward period.

  Local Impact

  - There is one EZ in San Diego County (San Diego Regional Enterprise Zone). Since the zone falls entirely within the incorporated boundaries of the Cities of San Diego, Chula Vista, and National City, no EZ-related incentives are available directly in the unincorporated areas of the County. However, there could be an undetermined indirect impact to the County if reform of the EZ inhibits business development.

Williamson Act Program *(Governor's May Revision Budget Summary, Pages 97-98)*

- In March 2011, the Legislature and Governor eliminated funding for Williamson Act subventions (SB 80).

  County Impact

  - The County of San Diego currently has 61,000 acres under Williamson Act contracts. This acreage equates to an approximate assessed value of $1.7 million in property tax. Until FY 2008-09, the County received some subvention funding from the state to supplement the loss of total property tax from those lands. The County last received a subvention payment in FY 2008-09 and it was for $79,721 (equating to a loss of $1.62 million in assessed value). Since then, the County has received no Williamson Act subvention funding. There is no new budgetary impact to the County for FY 2011-12 from the elimination of funding for Williamson Act subventions since the County no longer budgets the $79,721 in revenue. Furthermore, as a result of the lack of funding in the last several years, the Board of Supervisors adopted a temporary suspension for new contracts through 2015 or until state funding is resumed.
  - Currently, existing contracts are allowed to continue.

HEALTH AND HUMAN SERVICES

Realignment – Health and Human Services (*Governor's May Revision Budget Summary, Pages 105-107)*

- The May Revision maintains the Governor's January proposal to restructure the state-local relationship by realigning government services in California through shifting authority and responsibility for programs and offenders from the state to local government.
- Under the May Revision realignment proposal, $5.6 billion in programs would be shifted from the state to counties in FY 2011-12 with the amount growing to $7.0 billion by FY 2014-15. The funding source is a combination of sales tax and Vehicle License Fee (VLF) revenues, subject to voter approval. The May Revision assumes extension of these taxes effective July 1, 2011.
- Until local governments fully take on all responsibilities, some realignment revenues would be allocated to the state to pay for its costs to continue operating the realigned programs.
- Programs that continue to remain a part of the Governor's plan to shift responsibilities from the state to local government include:

  - Mental Health Services (Early Periodic Screening, Diagnosis and Treatment [EPSDT], Mental Health Managed Care, and existing community mental health services)
  - Substance Abuse Treatment
  - Foster Care and Child Welfare Services **(See Foster Care item in this section)**
  - Adult Protective Services
  - Court Security **(See Public Safety section of this document)**
  - Vehicle License Fee supported Public Safety Programs **(See Public Safety section of this document)**
  - Lower-level Offenders and Parole Violators **(See Public Safety section of this document)**
  - Adult Parole **(See Public Safety section of this document)**
  - Juvenile Justice Programs **(See Public Safety section of this document)**
- Programs that were proposed to be realigned in the Governor's January Proposed Budget that are changed in the May Revision include:
  - Funds administered by the Commission on Peace Officer Standards and Training (POST) and those administered by the Corrections Standards Authority are removed from the realignment proposal and returned to state general fund support.
  - Funds for public safety mandates are removed from the proposal and returned to state general fund support.
  - Fire protection services funding is removed from the proposal and returned to state general fund support.
  - Mental health services for special education students (AB 3632) are removed from the proposal. Instead, this program, including costs associated with residential treatment, is proposed to be realigned to school districts.
- The May Revision does not provide any additional information regarding future phases of realignment. The Governor's January Proposed Budget foreshadowed realignment in two phases: Phase One realignment focuses on aforementioned programs related to public safety and Phase Two realignment was forecasted to focus primarily on the implementation of national health care reform. Phase Two assumes the state will become responsible for costs associated with health care programs, including California Children's Services and In-Home Supportive Services (IHSS), while the counties assume responsibility for CalWORKs, Food Stamp administration, child support, child care programs and public health.

  <u>Unknown County Impact</u>
  - The state has not provided enough details to determine the impact.

Mental Health Services *(Governor's May Revision Budget Summary, Pages 68-69)*
- In March 2011, the Legislature and Governor adopted a shift of $861.2 million in FY 2011-12 funding by using Mental Health Services Act (MHSA) (Proposition 63) to fund Early Periodic Screening, Diagnosis, and Treatment (EPSDT), mental health managed care program, and mandated mental health services for special education students (AB 3632).

  <u>County Impact</u>
  - Assuming that caseloads remain the same, no adverse impact to local mental health is anticipated if the Proposition 63 funding comes from an unallocated $2 billion surplus.
- The May Revision continues to provide $98.6 million in MHSA to county mental health agencies on a one-time basis for mental health services to special education students; however, the ongoing responsibility for mental health services including out-of-home residential services is proposed for realignment to school districts instead of counties.

  <u>County Impact</u>
  - No adverse impact in FY 2011-12 assuming existing memorandums of agreement with the Office of Education continue.
- The May Revision proposes to eliminate the Department of Mental Health (DMH) and the Department of Alcohol and Drug Programs (DADP).

  <u>Unknown County Impact</u>

Foster Care *(Governor's May Revision Budget Summary, Page 106)*
- There are three counties that perform the activities associated with independent adoptions workload, including the County of San Diego. The state's Department of Social Services (DSS) does the work for the other 55 counties.
- The May Revision proposes to reduce the amount of foster care and child welfare services funding realigned to counties by $1.7 million and have DSS contract with the three counties that currently perform independent adoptions. The DSS will continue to do the work associated with independent adoptions for the other 55 counties.

  <u>Unknown County Impact</u>

        - Impact will depend on how the state structures the contract with the County.
- In terms of agency adoptions, 28 counties currently perform this work with DSS doing the work for the remainder of the counties. The May Revision proposes to include approximately $6 million that had been state operation costs in realignment. The 30 counties that currently have DSS perform the agency adoptions workload for them can either contract with DSS to do this work, choose to take on the work themselves, or join with other counties to perform the work.

    No County Impact
    - The County currently performs this work.

CalWORKs *(Governor's May Revision Budget Summary, Pages 70-71)*

- The Legislature and Governor adopted the following major solutions in March 2011 (SB 72):
    - Effective June 1, 2011, eliminates monthly benefits for families that have received CalWORKs aid for 48 months or more, with certain exceptions (currently set at 60 months). Child-only benefits would continue beyond the 48 month time limit for families fully meeting work participation requirements as well as child-only benefits for families with unaided adult recipients of Supplemental Security Income/State Supplemental Payment (SSI/SSP) and non-needy caretaker relatives. This would result in a reduction of $102.6 million in state funding.

        Local Impact
        - As of April 2011, approximately 2,200 cases with an average grant amount of $538 will reach 48 months on CalWORKs.
        - Approximately 12,190 child-only cases do not contain an SSI/SSP parent. An unknown number of these cases could be affected.

        County Impact
        - This proposal would result in approximately $400,000 in County savings due to the decrease of a minimum of $14.2 million in aid payments.
    - Effective June 1, 2011, reduces CalWORKs grants by 8 percent. The maximum monthly grant for a family of three will be reduced from $694 to $638. The CalFresh (formerly Food Stamp) benefit levels will increase, thereby reducing the impact to families' total resources. This would result in a reduction of $314.3 million in state funding.

        Local Impact
        - This proposal would impact approximately 32,450 CalWORKs cases. This reduction will also have an impact on the relative caretakers of foster children. The average grant would be reduced from $538 per month to $495 per month for a decrease of $16.7 million in aid payments.

        County Impact
        - This proposal would result in approximately $400,000 in County savings.
    - After applying the 8 percent reduction, this would reduce the monthly aid payment by up to 15 percent for cases without an aided adult. These cases include sanctioned, safety net, and other child-only cases, and payments will be reduced based on the number of aided months beyond 60 months. Aid payments for these cases will be reduced by 5 percent, 10 percent, and 15 percent commencing with the 61st, 73rd, and 85th cumulative month on aid. This would result in a reduction of $86.3 million in state funding.

        Local Impact
        - As of February 2011, San Diego had approximately 12,190 child-only cases with an average grant amount of $474 that may be affected by this change.
        - Child Welfare Services has approximately 300 cases that could be impacted.
    - Reduction in the amount of income that is not counted for the purposes of calculating a family's monthly CalWORKs grant. The income disregard will be modified to not count the first $112 of monthly earned income and 50 percent of each dollar earned beyond $112. This would result in a reduction of $83.3 million in state funding.

        Local Impact
        - Approximately 8,000 families are receiving the current earned income disregard and could possibly have a reduction in CalWORKs payments. An additional 520 cases with disability-based unearned income could also be impacted.
    - Extends for one year the reduction in the county single allocation for employment services and Stage 1 Child Care that has been in place since FY 2009-10. Recent changes in law implemented a deeper reduction to the county single allocation and provided additional county flexibility by authorizing an extra exemption for adult recipients from work participation requirements. This would result in a reduction of $412.6 million in state funding.

County Impact
- Potential reduction of $4 million to the County's administrative allocation. The County would need to prioritize the use of the single allocation funds to service clients in the most efficient and effective manner.

- Suspend for one year the Cal-Learn program, which provides intensive case management, supportive services, and fiscal incentives and disincentives to encourage teen parents to earn a high school diploma or equivalent degree. This would result in a reduction of $43.6 million in state funding.
  County Impact
  - Potential loss of $1.4 million. These services are provided through a county contract. As of March 2011, 480 Cal-Learn teens will be impacted by this change.
- Reduce the amount of funding for counties to provide mental health and substance abuse services. This would result in a reduction of $5 million in state funding.
  County Impact
  - Potential reduction of $250,000 for Mental Health Services and Alcohol and Drug Services.

Medi-Cal *(Governor's May Revision Budget Summary, Pages 59-63)*

- The Legislature and Governor adopted the following major solutions in March 2011 (AB 97):
  - Limits utilization of services such as setting a maximum annual benefit dollar cap on hearing aids and limiting the number of doctor visits to seven per year prior to physician authorization. Pending federal approval. Changes to take effect October 1, 2011.
  - Requires beneficiaries to share in the cost of services such as increasing physician, clinic, dental, emergency room, and pharmacy co-payments. These changes would take effect November 1, 2011, based on the time needed to obtain federal approvals and provide necessary beneficiary and provider notification.
  - Eliminates Adult Day Health Care, coverage of over-the counter cough and cold medications, and restricts supplemental nutrition products.
  - Reduces Medi-Cal Provider payments by 10 percent for physicians, pharmacy, clinics, medical transportation, home health, family health programs, certain hospitals, and nursing facilities as well as long-term care facilities, including nursing facilities. This proposal would require federal approval of a state plan amendment.
    Local Impact
    - Increasing costs to individuals and limiting services could result in financial and medical hardship.
    - Limits of the number of visits and co-payments could negatively impact children in Foster Care, particularly those that are medically fragile or severely disabled.
    - Reducing provider payments may decrease the number of providers willing to accept Medi-Cal creating a burden on the local safety net of care.
    - It is unknown if these reductions are applicable to mental health or alcohol and drug services.

    County Impact
    - The County will have to continue the administration of the Medi-Cal program at the current allocation level.
      - Some California Children's Services (CCS) families on Medi-Cal may not be able to afford the share of cost, and may shift to straight CCS which would increase the County's share of the client's costs by 50 percent.
      - Historically, this proposal has been subject to court injunctions. Edgemoor is waiting further clarification regarding the potential impacts of the 10 percent reduction. Potential loss of $4.4 to $6.5 million in rate reduction to Edgemoor.
- The May Revision proposes additional state funding reductions to Medi-Cal including:
  - Shifting Healthy Families children to Medi-Cal for a $31.2 million state funding reduction. This proposal would implement the Medicaid expansion for children 0 to 133 percent of the federal poverty level required under federal health care reform early and take the additional step of transitioning all Healthy Families children to Medi-Cal.
    Unknown County Impact
    - Unknown impact to CCS clients. Clients that would now qualify for Medi-Cal will reduce the use of local funds while clients that are ineligible for Medi-Cal and transition to CCS will increase the use of local funds.
    - Unknown impact on the County's Medi-Cal administrative allocation.
  - Proposes to identify additional undetermined options to claim waiver funds ($95.2 million in state savings).

First 5 San Diego (Proposition 10 Funding) *(Governor's May Revision Budget Summary, Pages 4 & 62)*

- While the Legislature and Governor adopted a proposal to shift $1 billion in Proposition 10 funds to fund Medi-Cal services for children through age five (AB 99, March 2011), the May Revision proposes to restore this funding due to ongoing litigation.
  - County Impact
    - As litigation is pending, First 5 San Diego is holding $88.3 million in reserves (as a funding loss) pending the outcome. If the litigation is still pending, or if the state is successful in the litigation, First 5 San Diego must send the funds to the state by June 30, 2012.

Healthy Families *(Governor's May Revision Budget Summary, Pages 64-65)*

- The Legislature and Governor adopted the following cuts in Healthy Families funding in March 2011 (AB 97):
  - The Vision Benefit Cost Containment proposal will result in lower plan rates for vision services ($3.3 million in state funding reductions).
  - Increased monthly premiums for families with income at or above 150 percent of federal poverty level ($22.8 million in state funding reductions).
  - Increasing co-payments for emergency room visits and inpatient stays ($4.9 million in state funding reductions).
  - California currently taxes managed care organizations and uses these revenues to draw down federal funds, to fund rate increases in Medi-Cal, and to provide health coverage in Healthy Families. This proposal will extend the statutory authority to December 31, 2013 to collect taxes assessed on Managed Care Plans ($103.3 million in state funding reductions).
    - Local Impact
      - Increasing costs to individuals and limiting services could result in financial and medical hardship to California Children's Services families. This proposal may have an indirect impact to populations serviced in Child Health and Disability Prevention (CHDP) and Maternal, Child and Family Health programs.
    - County Impact
      - Potential for increased costs for California Children's Services.
- The May Revision proposes to reduce state funding by shifting Healthy Families Children to Medi-Cal. **(See Medi-Cal item in this section)**

In-Home Supportive Services (IHSS) *(Governor's May Revision Budget Summary, Pages 71-72)*

- The Legislature and Governor adopted the following major solutions in March 2011 (SB 72):
  - Requires a provision of IHSS to be contingent upon a written certification from a licensed health care professional that personal care services are necessary to prevent out-of home care.
    - Local Impact
      - Approximately 2,350 clients could lose IHSS services.
    - County Impact
      - Potential of $1.98 million in county savings. Administrative staff time will increase due to processing and tracking certifications.
  - Assumes that the state will receive a 6 percent increase in federal matching funds by exercising a federal option for home and community-based attendant services benefiting all IHSS federally eligible recipients ($128 million in state funding reduction).
    - Unknown Local Impact
  - Eliminate state funding for IHSS Advisory Committees ($1.5 million state funding reduction).
    - County Impact
      - Loss of $52,900 in state and federal funding and elimination of the local advisory committee with duties potentially transferring to the Aging and Independence Services Advisory Council.
  - Implements a pilot project that would utilize automated medication dispensing machines with associated telephonic reporting services for monitoring and assisting Medi-Cal recipients with taking prescribed medications ($140 million in state funding reduction). To the extent the pilot and/alternate savings proposals enacted by the Legislature do not achieve the savings, the legislation also requires an across-the-board reduction in authorized hours for IHSS recipients beginning October 1, 2012 to make up the shortfall.

Unknown Local Impact
- An undetermined number of IHSS recipients may utilize the automated medication dispensing machines.
- An across-the-board reduction in authorized hours for IHSS recipients would mean client would receive fewer services.

Unknown County Impact
- o Reduces IHSS caseload projections by cutting state funding by $29.5 million in FY 2010-11 and $53.7 million in FY 2011-12.

  County Impact
  - Estimated reduction of $950,000 to IHSS.
- The May Revision proposes to cut state funding for Public Authorities by another $7.5 million.

  County Impact
  - Estimated reduction of $799,000 to the Public Authority.

Child Care *(Governor's May Revision Budget Summary, Pages 79-80)*
- The Legislature and Governor adopted the following major solutions in March 2011 (SB 70).
  - o Effective July 1, 2011, reduces license-exempt provider rates from 80 percent to 60 percent of license provider rates. This would result in a $44.1 million in state funding reductions.

    Local Impact
    - This would reduce income to providers in San Diego County by approximately $1.9 million per year.
  - o Restores Stage 3 Child Care funding starting April 2011 through FY 2011-12.

    Local Impact
    - This would extend eligibility for subsidized child care services to former CalWORKs recipients who have been off-aid for over 24 months and continue to meet income eligibility.
  - o Additional cuts were made that may impact families receiving these services such as the elimination of child care services for 11 and 12 year-olds (with certain exceptions), increased fees for families by 10 percent, (not to exceed 10 percent of a family's monthly income), a reduction in the income limit for child care programs to 70 percent of State Median Income, and elimination of funding for the Centralized Eligibility Lists (CEL) for FY 2011-12.

    Local Impact
    - Clients will no longer have a single place to register for all California Department of Education subsidized child care programs.

Veterans' Services *(Governor's May Revision Budget Summary, Page 96)*
- In March 2011, the Legislature and Governor adopted elimination of $7.3 million to reduce state operations for veterans' services and local assistance to County Veterans Services offices. (SB 69)

  Local Impact
  - An unknown number of clients may receive reduced services.

Public Health *(Governor's May Revision Budget Summary, Page 66)*
- The May Revision proposes a partial restoration of immunization funding ($7.3 million in state funding) for influenza vaccine purchases for local health departments to provide influenza vaccinations for the elderly and other at-risk Californians.

  County Impact
  - No direct fiscal impact to the County since the County's Health and Human Services Agency does not receive funding for the influenza vaccine provided by the state. This may, however, increase the number of flu doses made available to the residents in the county.

Supplemental Security Income/State Supplemental Payment (SSI/SSP) *(Governor's May Revision Budget Summary, Page 72)*
- In March 2011, the Legislature and Governor reduced monthly SSP grants for individuals to the federal required minimum payment standard (SB 72). With this reduction, the maximum monthly SSI/SSP cash grant for individuals would be reduced by $15 per month (from $845 to $830, for a $178.4 million reduction in state funding).

  Local Impact
  - This proposal may impact up to 265 children that are in the Foster Care system and receive SSI benefits.

- These individuals may potentially be eligible to CalFresh.

Unknown County Impact

- Reductions in SSI cash grants may result in increased rent subsidies for those clients who receive SSI benefits and who participate in County-administered rental assistance programs.

Child Welfare Services *(Governor's May Revision Budget Summary, Pages 72-73)*

- The May Revision proposes a decrease of $3.1 million in state funding from indefinitely suspending the development of the Child Welfare Services/Case management System Web (CWS/WEB) Project.

Unknown County Impact

- County CWS staff will continue to operate under an older technology.

AIDS Care and Prevention *(Governor's May Revision Budget Summary, Page 66)*

- The May Revision proposes $20.2 million in state funding reductions through major program changes including modifications to the eligibility requirements of the Comprehensive AIDS Resource Emergency/Health Insurance Premium Payment Program (CARE/HIPP), enrollment of clients in the Pre-Existing Condition Insurance Program (PCIP), and additional federal funds available from the Safety Net Care Pool.

Local Impact

- This proposal may affect county residents that use this service from being able to afford their medications.

Conservatorship Program Suspension *(Governor's Budget May Revision Summary, Page 42)*

- In March 2011 the Legislature and Governor adopted a $17.4 million state funding reduction related to statutory changes making the Conservatorship and Guardianship Act of 2006 permissive at the trial court level (SB 78).

Unknown County Impact

- The state has not provided enough information to determine the impact to Public Administrator/Public Guardian's office or the Public Conservator's office.

California Department of Corrections and Rehabilitation (CDCR) (*Governor's May Revision Budget Summary, Page 89)*

- The Legislature approved a one-time reduction of $150 million in state funding for CDCR adult inmate and paroles programs which will be focused on terminating contracts and delaying new services (SB 69). SB 69 is still pending in the Legislature.

County Impact

- Suspension of $1.5 million in FY 2011-12 for Parolee Services Network (PSN) Alcohol and Drug Services is already known. Contract funding for FY 2011-12 has been suspended.

Cash Assistance Program for Immigrants (CAPI) *(SB 72, Page 54)*

- In March 2011, the Legislature and Governor adopted legislation (SB 72) which, effective June 1, 2011, reduces cash aid payments to eligible immigrants to the federal minimum level of the SSP grant.

Local impact

- Reduction in income to 247 elderly/disabled immigrant cases.
- These individuals may potentially be eligible to CalFresh.

County impact

- No direct impact, as CAPI is 100 percent state funded.

Deferrals *(SB 82, Pages 1, 2 & 13)*

- In March 2011, the Legislature and Governor adopted legislation (SB 82) authorizing state general fund payments to be deferred starting in July 2011, October 2011 and March 2012. The deferrals can be made for no more than 60 days, 90 days and 60 days, respectively. Deferrals to counties include social services payments.
- This action continues the deferral plan that is currently in place.

LAND USE AND ENVIRONMENT

Transportation Tax Swap *(Governor's May Revision Budget Summary, Pages 48-49)*

- The May Revision reflects the reenactment of the transportation tax swap discussed in the Governor's January proposal. The Legislature acted in March 2011 to reenact the transportation tax swap by a two-thirds vote (AB

105). This reenacted the sales tax rate increase on diesel fuel and the excise tax increase, which replaced the sales tax on gasoline. The Legislature had to reenact the transportation tax swap due to the passage of Proposition 26 in November 2010, which retroactively established a two-thirds vote threshold for any tax measures occurring after October 2009.

No County Impact

- Approximately $20 million in annual local streets and roads funding for the County was at risk. Since the legislation passed with a two-thirds vote and has been signed into law by the Governor, local streets and road spending will not be adversely impacted.

PUBLIC SAFETY

Realignment – Public Safety *(Governor's May Revision Budget Summary, Pages 103-107)*

- The May Revision maintains the Governor's January proposal to restructure the state-local relationship by realigning government services in California through shifting authority and responsibility for programs and offenders from the state to local government.
- Otherwise known as the Community Corrections Grant Program, Assembly Bill 109 (AB 109) was signed into law in April 2011 and becomes operative no earlier than July 1, 2011. AB 109 contains a provision that provides it would only become operative upon creation of a Community Corrections Grant Program to assist in implementing this act and upon an appropriation to fund the grant program. However, there is no guarantee the state will provide ongoing funding.
- Under the May Revision realignment proposal, $5.6 billion in programs would be shifted from the state to counties in FY 2011-12 with the amount growing to $7.0 billion by FY 2014-15. The funding source is a combination of sales tax and Vehicle License Fee (VLF) revenues, subject to voter approval. The May Revision assumes extension of these taxes effective July 1, 2011.
- Until local governments fully take on all responsibilities, some realignment revenues would be allocated to the state to pay for its costs to continue operating the realigned programs.
- Programs that continue to remain a part of the Governor's plan to shift responsibilities from the state to local government include:
    - Court Security
    - Vehicle License Fee supported Public Safety Programs
    - Lower-level Offenders and Parole Violators
    - Adult Parole
    - Juvenile Justice Programs
    - Mental Health Services **(See Health and Human Services section of this document)**
    - Substance Abuse Treatment **(See Health and Human Services section of this document)**
    - Foster Care and Child Welfare Services **(See Health and Human Services section of this document)**
    - Adult Protective Services **(See Health and Human Services section of this document)**
- Programs that were proposed to be realigned in the Governor's January Proposed Budget that are changed in the May Revision include:
    - Funds administered by the Commission on Peace Officer Standards and Training (POST) and those administered by the Corrections Standards Authority are removed from the realignment proposal and returned to state general fund support.
    - Funds for public safety mandates are removed from the proposal and returned to state general fund support.
    - Fire protection services funding is removed from the proposal and returned to state general fund support.
    - Mental health services (AB 3632, mental health services for special education pupils) are removed from the proposal. Instead, this program, including costs associated with residential treatment, is proposed to be realigned to school districts. **(See Health and Human Services section of this document)**
- The May Revision provides that due to the aforementioned changes, fewer resources need to be included for realignment. The May Revision proposes that 0.4 percent of the VLF increase be allocated to realignment verses the 0.5 percent included in January and that the 0.1 percent difference will be redirected to the state's general fund. The one-cent sales tax extension continues as part of realignment.

Transfer Court Security to Counties *(Governor's May Revision Budget Summary, Pages 104 & 107; Governor's January Budget Summary, Page 22)*

- The May Revision maintains the Governor's January proposal to transfer the funding of court security to counties. Under current law, court security is defined as court operation, with costs covered by the Trial Court Trust Fund.
- The May Revision adjusts the court security estimate to $497.8 million reflecting expected increases in court security costs of $2.5 million associated with a local-level parole and post-release supervision revocation process and the application of an inflation factor of 2.2 percent ($10.7 million) to more accurately produce a baseline for FY 2011-12.

  Unknown County Impact

Continuation of Current Public Safety Programs supported by Vehicle License Fee Revenues (VLF) – the Local Safety Protection Account *(Governor's May Revision Budget Summary, Page 107; Governor's January Budget Summary, Page 104)*

- The May Revision maintains the Governor's January proposal to realign public safety programs by shifting authority for programs and offenders from the state to local government.
- The Governor's January proposal to fund the local public safety protection account by extending current personal income, sales tax and the VLF failed to pass the Legislature. The May Revision continues to rely on the Legislature and the voting public to approve a tax extension.
- Funding for public safety programs supported by VLF is set to expire on June 30, 2011.
- The May Revision adjusts the funding level for local public safety subventions to $504 million, reflecting a $2 million shift associated with funding for state functions related to local public safety assistance (Cal EMA and the Department of Justice).

  County Impact

  - Risk to $22.3 million in current programs in Probation, Sheriff and District Attorney. These programs include Citizens Option for Public Safety (COPS) supporting jail staffing, law enforcement and prosecution activities, Juvenile Justice Crime Prevention Act, Juvenile Probation Camp Funding, Booking Fee Subvention, Vertical Prosecution and the High Technology Theft Apprehension and Prosecution Program.

Lower-Level Offenders and Parole Violators Shifted to Counties *(Governor's May Revision Budget Summary, Page 105; Governor's January Budget Summary, Pages 22-23)*

- The May Revision maintains the Governor's realignment proposal to prospectively transfer to counties the responsibility to manage low-level offenders by requiring that non-violent, non-serious, non-sex offenders serve their terms locally in jail and/or on probation. Statewide, this is estimated to include up to 26,000 offenders

  County Impact

  - Approximately 2,000 offenders are estimated to remain in San Diego County annually with sentences determined by the court. It is not known whether sufficient revenues would be provided to counties to incarcerate these offenders or to provide services and support in the community if appropriate.

Adult Parole Responsibility Shifted to Counties *(Governor's May Revision Budget Summary, Page 107; Governor's January Budget Summary, Pages 23-24)*

- The May Revision maintains the Governor's realignment proposal to prospectively shift the responsibility for adult parolees convicted of non-serious, non-violent crimes, regardless of previous convictions, to counties. Counties would assume supervisory responsibility for these parolees upon their release from state prison. Statewide, the Department of Corrections and Rehabilitation estimates counties would be responsible for about 25,000 parolees upon full implementation in FY 2014-15.

  County Impact

  - The transferred population would include parolees convicted of non-serious, non-violent crimes, regardless of previous convictions, and could include high risk offenders. The transferred population could include sex offenders, though high-risk sex offenders will remain under state supervision. This group of offenders currently has a 70 percent recidivism rate and would require a high level of supervision. It is not known whether sufficient revenues would be given to counties to provide the required level of supervision for these offenders or to provide services and support in the community if appropriate.
- The May Revision includes two funding changes related to the local jurisdiction of lower-level offenders and parole violators; these two changes add $44.6 million to the amount allocated to counties. The May Revision includes

additional funding to address increased workload for county District Attorneys and Public Defenders associated with parole and post-release supervision revocation hearings. The Governor's January Proposed Budget did not include program dollars for offenders serving time in jail as local costs. The May Revision includes funding to ensure a continuum of services beginning while offenders are in jail and extending to services provided in the community.

Juvenile Offenders Transferred to Counties *(Governor's May Revision Budget Summary, Page 107; Governor's January Budget Summary, Page 24)*

- Prior budget action realigned the majority of youth offenders to counties. The May Revision maintains the Governor's January proposal to end the state's role in housing and treating youth offenders who would now serve all of their sentences locally.
- The May Revision transfers the Youthful Offender Block Grant and the Juvenile Reentry Funds currently funded by State General Fund into the Realignment proposal.
- The May Revision proposes to eliminate the Division of Juvenile Justice (DJJ) by June 30, 2014. This budget proposal would require counties to house, treat, and supervise all juvenile offenders – including the 707(b) population which is now under DJJ's jurisdiction.

  <u>County Impact</u>

  - Transitions all offenders housed treated and supervised by DJJ to the counties. This population includes wards with true findings for serious, violent and sex offenses who require secure custody. This transition would increase populations in custody by approximately 20 offenders annually. It is not known whether sufficient revenues will be provided to counties to house these offenders.

Support for Courts to Conduct Parole and Post-Release Supervision Revocation Hearings *(Governor's May Revision Budget Summary, Page 42)*

- The May Revision proposes an increase of $41.8 million for court workload resulting from the shift of responsibility for parole and post-release supervision revocation hearing. This total includes an amount of $2.5 million for court security as referenced above.

Change to Community Corrections Performance Incentive Grants *(Governor's May Revision Budget Summary, Page 91)*

- The May Revision proposes an increase of $30 million in state general funds (for a total of $85 million) for the California Community Corrections Performance Incentive Act (SB 678, 2009). These funds are allocated to probation departments demonstrating success in reducing the number of adult felony probationers going to state prison due to new crimes or due to violating the terms of their probation. To date, approximately 6,400 felony probationers statewide have been successfully kept out of prison.

  <u>County Impact</u>

  - The anticipated San Diego County award associated with a decrease of 185 felony probationers sent to state prison is $2.4 million; $2.1 million is included in the County's FY 2011-13 Chief Administrative Officer's Proposed Operational Plan.

CAL FIRE *(Governor's May Revision Budget Summary, Page 53; Governor's January Budget Summary, Pages 90-91)*

- In March 2011 the Legislature adopted the Governor's January proposal to decrease CAL FIRE's staffing levels from four firefighters per engine to three firefighters per engine during peak fire season, returning to the pre-2003 level of per-engine staffing (SB 68). SB 68 is still pending in the Legislature.

  <u>County Impact</u>

  - In San Diego County, 18 CAL FIRE stations with up to 26 engine companies would be staffed with 3 firefighters rather than 4 firefighters.

Unallocated Reduction to Receiver's Medical Services Program *(Governor's May Revision Budget Summary, Page 90)*

- The May Revision proposes a decrease of $82.6 million in FY 2010-11 and $163.2 million in FY 2011-12, which represent a five percent and ten percent reduction, respectively. The Medical Services Program continues to cost approximately $11,000 per inmate annually.

  <u>Unknown County Impact</u>

Golden Guardian *(Governor's May Revision Budget Summary, Page 43)*

- The May Revision proposes an ongoing reduction, beginning in FY 2011-12, of $779,000 related to the elimination of state general fund support for the California Emergency Management Agency (Cal EMA)'s annual Golden Guardian Exercise and state agency training. The state will continue to conduct the Golden Guardian Exercise and will offer state agency training but on a reimbursement basis.

  County Impact

  - The County of San Diego currently participates in the Golden Guardian Exercise and will continue to be able to conduct a full scale exercise.